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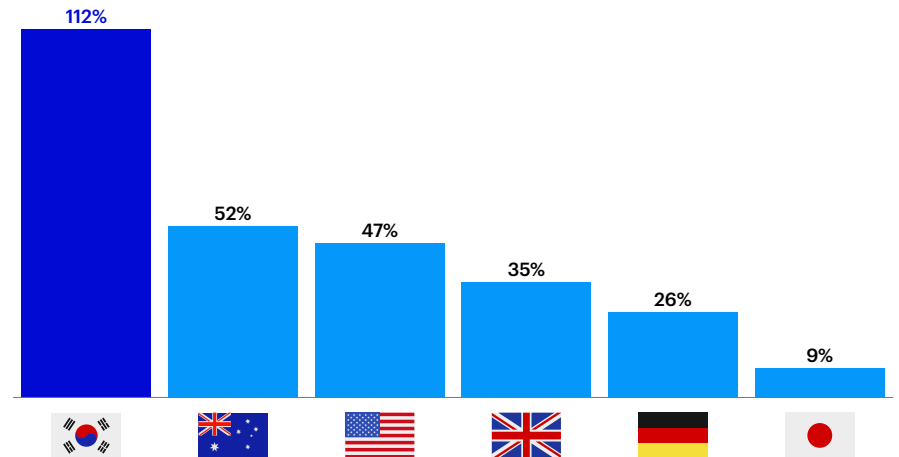
APAC's living sector is drawing investor interest

The living sector in APAC, including South Korea, is drawing significant investor interest. According to CBRE, this sector, which encompasses senior living, student housing, co-living, and serviced apartments, is poised for growth due to rising expatriate numbers, low homeownership affordability, and its appeal as an inflation hedge.¹ While APAC's living sector is still in its early stages, accounting for only 6% of commercial real estate investment volumes since 2019, compared to 27% in Europe and 44% in the US, there is vast potential for growth.² Japan and Australia lead the region in terms of living sector investment volumes, but South Korea is also gaining attention, particularly for senior housing.

Growing demand from an aging population

South Korea has one of the fastest aging populations in the world. By 2025, it is expected to become a "super-aged society," with over 20% of the population being 65 years or older.³ This rapid demographic shift is creating a substantial demand for senior housing solutions which is still in its early stages. South Korea's population aged 65 and older is projected to double by 2040.⁴ As the Baby Boomer generation ages, their lifestyle preferences are evolving, further increasing the need for diverse and specialized senior living options.

Figure 1 : Growth of population aged 65+ (2040F)



Source: Organisation for Economic Co-operation and Development as of May 2024. There can be no assurance that forecasted information will come to be.

1. Asia Pacific Living Sector Poised for Growth: Japan and Australia Lead Investments, September 2024, <https://www.cbre.com/press-releases/apac-living-sector-poised-for-growth-japan-and-australia-lead-investments>

2. Ibid.

3. Nearly 20% of Koreans aged 65 and older in 2024: data, September 2024, https://www.koreatimes.co.kr/www/nation/2024/09/113_383168.html

4. Prospects of Korea's senior housing market, February 2024, <https://research.jllapsites.com/prospects-of-koreas-senior-housing-market/>

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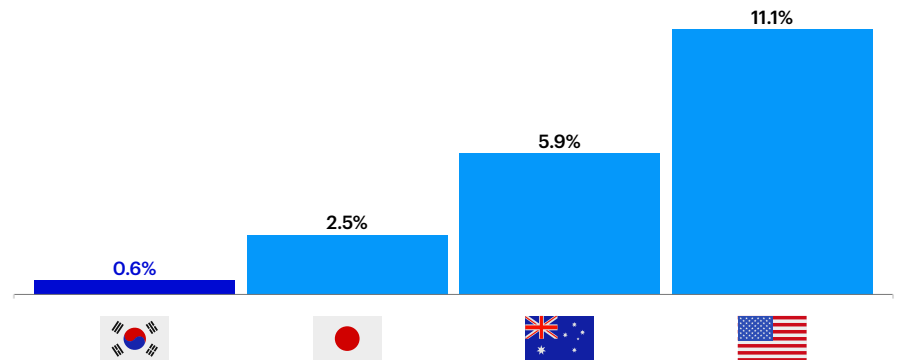
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Limited supply and fragmented industry

Despite the growing demand, South Korea has one of the lowest senior housing penetration rates globally, at just 0.6%, compared to over 11% in the United States.⁵ The industry is highly fragmented, with individual operators making up the majority.⁶ It is characterized by a mix of privately funded senior housing and welfare houses for seniors, offering various levels of services and care.

This fragmentation presents a significant opportunity for consolidation and the introduction of more standardized, high-quality senior living facilities. The limited supply of senior housing underscores the urgent need for new developments to meet the rising demand.

Figure 2 : Senior housing penetration in major OECD countries



Source: National Investment Center for Seniors Housing & Care (USA), Australian Institute of Health and Welfare (Australia), Korea Housing Institute (S. Korea), Ministry of Health Labor and Welfare (Japan), May 2024.

Policy support and deregulation

The South Korean government is actively supporting the senior living sector through various policy measures and deregulation efforts. These initiatives aim to boost supply and encourage private sector participation. Key policy supports⁷ include:

- Deregulation for developers and operators: The government has relaxed regulations to make it easier for developers and operators to enter the market and expand their offerings.
- Incentives for elderly residents: The government is providing incentives for elderly individuals to move into senior housing, such as annuities for the sale of existing residences.
- Encouraging private investment: Policies are in place to encourage private sector investment, including tax-efficient structures such as Real Estate Investment Trusts (REITs).

These policy measures are designed to facilitate the growth of the senior housing sector and ensure that it can meet the needs of the aging population.

Success is dependent on operational expertise

The scalability and success of senior living facilities in South Korea are heavily reliant on operational expertise and access to a nationwide caregiver network. Effective management and high-quality care services are crucial for attracting and retaining residents.⁸ Operators with established expertise and robust caregiver networks are well-positioned to capitalize on the growing market. We are positive on senior living housing opportunities in the Seoul metropolitan area and Gyeonggi province more broadly, where the demand we believe would be the highest.

5. Korea Housing Institute, data as of May 2024.

6. Ibid.

7. Source: Ministry of Health and Welfare, July 2024.

8. Prospects of Korea's senior housing market, February 2024, <https://research.jllapsites.com/prospects-of-koreas-senior-housing-market/>

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Conclusion

The senior living real estate sector in South Korea presents a relatively compelling investment opportunity driven by a rapidly aging population, limited supply, supportive government policies, and the need for operational expertise. By focusing on derisked products for independent seniors and leveraging policy support, investors can consider tapping into this growing market and contribute to the development of high-quality senior living solutions. As the industry evolves, there would be significant potential for growth and consolidation, making it an attractive sector for long-term investment.

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Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

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